

Portage District Library

Financial Statements

Year Ended December 31, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Portage District Library	County Kalamazoo
Audit Date 12/31/04	Opinion Date 3/25/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

BDO Seidman, LLP

Street Address

211 E. Water Street, Suite 300

City

Kalamazoo

State

MI

ZIP

49007

Accountant Signature

Anthony J. Daniels

Date

5/18/05

Portage District Library

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Portage District Library

Library Board

David Nicolette, Jr.
Chairperson

Laurie DeHaven
Vice Chairperson

Robert Seely

Kathy Peerbolte

Babbette Smith

Clifford Sacks

Karen Vemuri



Independent Auditors' Report

Library Board
Portage District Library
Portage, Michigan

We have audited the accompanying financial statements of the governmental activities of the Portage District Library (the Library), as of and for the year ended December 31, 2004, which collectively comprise the Library's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Library, as of December 31, 2004, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2005, on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 6 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Certified Public Accountants

March 25, 2005

MANGEMENT DISCUSSION AND ANALYSIS

This section of the Portage District Library's (the Library's) annual financial report presents our discussion and analysis of the Library's financial performance during the year ended December 31, 2004. Please read it in conjunction with the Library's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader understands the Library's finances as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Library, presenting both an aggregate view of the Library's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending.

Reporting the Library as a Whole – Government-wide Financial Statements

One of the most important questions asked about the Library is, "As a whole, what is the Library's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the Library's financial statements, report information on the Library as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Library's net assets--the difference between assets and liabilities, as reported in the Statement of Net Assets--as one way to measure the Library's financial health or financial position. Over time, increases or decreases in the Library's net assets, as reported in the Statement of Activities, are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Library's operating results. However, the Library's purpose is to provide library services to the residents of the district, not to generate profits as commercial entities.

The Statement of Net Assets and the Statement of Activities report the governmental activities for the Library, which encompass all of the Library's services. Property taxes finance most of these activities.

Reporting the Library's Fund Financial Statements

The Library's fund financial statements provide detailed information about the operating fund - not the Library as a whole. The Library, similar to other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The governmental fund of the Library uses the following accounting approach:

Governmental fund - All of the Library's services are reported in the governmental fund. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances remaining at year-end that are available for spending. They are reported using the accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Library and the services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's operations. We describe the differences between governmental activities reported in the Statement of Net Assets and the Statement of Activities and governmental funds in a reconciliation.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The Library as a Whole

Recall that the Statement of Net Assets provided a perspective of the Library as a whole. The following provides a summary of the Library's net assets as of December 31, 2004.

<u>December 31,</u>	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Assets:		
Current and other assets	\$ 3,742,319	\$ 3,327,458
Capital assets, net of accumulated depreciation	3,569,705	3,762,930
Total Assets	7,312,024	7,090,388
Liabilities:		
Current liabilities	105,727	200,420
Long-term liabilities	2,063,944	2,186,493
Total Liabilities	2,169,671	2,386,913
Net Assets:		
Invested in capital assets, net of related debt	1,629,980	1,693,890
Unrestricted	3,512,373	3,009,585
Total Net Assets	\$ 5,142,353	\$ 4,703,475

The above analysis focuses on the net assets. The change in net assets of the Library's governmental activities is discussed below. The Library's net assets were \$5,142,353 at December 31, 2004. Capital assets, net of related debt totaling \$1,629,980, compares the original cost, less depreciation of the Library's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service becomes due. The remaining amount of net assets of \$3,512,373 was unrestricted.

The \$3,512,373 in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net assets balance enables the Library to meet working capital and cash flow requirements as well as to provide for future uncertainty.

The results of this year's operations for the Library as a whole are reported in the Statement of Activities, which shows the changes in net assets for 2004 and 2003.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

<i>December 31,</i>	<i>Governmental Activities</i>	
	<i>2004</i>	<i>2003</i>
Revenue:		
Program revenue:		
Charges for services	\$ 200,649	\$ 216,243
Other operating grants	74,817	68,009
General revenue:		
Property taxes	3,027,081	2,863,808
Interest	17,985	18,714
Other	14,580	9,147
Total Revenue	3,335,112	3,175,921
Function/Program Expenses:		
Recreation and culture	2,787,021	2,831,592
Interest and fiscal charges	109,239	115,575
Total Expenses	2,896,260	2,947,167
Increase in Net Assets	\$ 438,852	\$ 228,754

As reported in the Statement of Activities, the cost of all of the Library's activities this year was \$2,896,260. Certain activities were partially funded from those who benefited from the operations through charges for services of \$200,649 or by other governments and organizations that subsidized certain programs with grants and contributions of \$74,817. We paid for the remaining "public benefit" portion of the Library's activities with tax revenue and other revenues such as interest and state shared revenue totaling \$3,059,646.

The Library experienced an increase in net assets of \$438,852.

As discussed above, the net cost shows the financial burden placed on the state and the Library's taxpayers by each of these functions. Since property taxes constitute the vast majority of the Library's operating revenue sources, the board and management must annually evaluate the needs of the Library and balance those needs with ongoing obligations to citizens and creditors.

The Library's Governmental Fund

As we noted earlier, the Library uses a fund to help it control and manage money for particular purposes. Looking at the fund helps the reader consider whether the Library is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Library's overall financial health.

As the Library completed this year, the governmental fund reported a fund balance of \$3,466,867, which is an increase of \$417,071 from last year. The primary reason for this increase is the timing of tax collections in relation to the Library's fiscal year. Furthermore, penal fines were received in excess of planned amounts. Expenditures were less than planned due to several factors. The first, several staff positions were vacant for portions of the year, which resulted in a decrease in planned expenditures in salaries and related fringe benefits. Furthermore, anticipated increases in utility costs did not materialize and expenditures were less than anticipated.

General Fund Budgetary Highlights

Over the course of the year, the Library revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Library's original and final budget amounts compared to amounts actually paid and received is provided in the basic financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

(Concluded)

Budgeted revenues were increased by \$7,750, primarily due to donations received in excess of planned amounts.

Budgeted expenditures were increased by \$198,795, primarily due to prior year encumbrances. The majority of the remaining increase was for the allocation of undesignated fund balance for development of the on-line summer reading project and consulting service related to vacant staff positions.

Total actual revenues exceeded the final budget by \$265,787. This variance was due to a higher than anticipated collection of property taxes, penal fines, and donations received during the year.

Actual amounts of expenditures reported for recreation and culture were approximately \$310,031 under our final amended budget. This variance was due primarily to encumbrances as of year-end. Additionally, expenditures for utilities, fundraising, and human resources were lower than anticipated.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2004, the Library had \$3,569,705 invested in capital lease assets and capital assets, including land, land improvements, building, building improvements, equipment, and furniture and fixtures. This amount represents a net decrease (including additions, disposals, and depreciation) of \$193,225 or 5% from last year.

<i>December 31,</i>	<i>2004</i>	<i>2003</i>
Land	\$ 30,000	\$ 30,000
Capital lease assets	4,287,799	4,287,799
Capital assets	1,627,917	1,618,127
	5,945,716	5,935,926
Less accumulated depreciation	2,376,011	2,172,996
Net Capital Assets	\$ 3,569,705	\$ 3,762,930

This year's additions of \$9,790 included computer hardware. Additional information on the Library's capital assets can be found in Note 5 on page 19 of this report.

Debt

At the end of this year, the Library had \$1,939,725 in bonds outstanding versus \$2,069,040 in the previous year (a decrease of 7%). Additional information on the Library's debt can be found in Note 6 on page 20 of this report.

Economic Factors and Next Year's Budgets and Rates

Our board and management consider many factors when setting the Library's 2005 budget. One of the most important factors affecting the budget is the estimated amount of property tax revenue. The 2005 budget was adopted in December, 2004, based on property taxes levied in November, 2004. Approximately 90% of total General Fund revenue is from property taxes. Under state law, the Library cannot assess additional property tax revenue for general operations. As a result, the Library funding is heavily dependent on the collection of property taxes.

Contacting the Library's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the funds received. If you have questions about this report or need additional information, contact the Business Office, Portage District Library, 300 Library Lane, Portage, Michigan 49002.

Portage District Library

Government-Wide Financial Statements Statement of Net Assets

<i>December 31, 2004</i>	<i>Governmental Activities</i>
Assets	
Current Assets:	
Cash (Note 4)	\$ 24,986
Investments (Note 4)	1,236,690
Receivables - Property taxes	2,480,362
Beneficial interest (Note 8)	281
Capital assets, net of accumulated depreciation (Note 5)	3,569,705
Total Assets	\$ 7,312,024
Liabilities and Net Assets	
Current Liabilities:	
Accounts payable - Trade	\$ 36,611
Accrued wages	69,116
Noncurrent liabilities (Note 6):	
Due within one year	151,315
Due in more than one year	1,912,629
Total Liabilities	2,169,671
Net Assets:	
Invested in capital assets, net of related debt	1,629,980
Unrestricted	3,512,373
Total Net Assets	5,142,353
Total Liabilities and Net Assets	\$ 7,312,024

See accompanying notes to financial statements.

Portage District Library

Government-Wide Financial Statements Statement of Activities

<i>Year ended December 31, 2004</i>	<i>Expenses</i>	<i>Program Revenues</i>		<i>Governmental Activities</i>
		<i>Charges for Services</i>	<i>Operating Grants and Contributions</i>	<i>Net (Expense) Revenue and Changes in Net Assets</i>
Function/Program -				
Governmental activities:				
Recreation and culture	\$ 2,787,021	\$ 200,649	\$ 74,817	\$ (2,511,555)
Interest and fiscal charges	109,239	-	-	(109,239)
Total Governmental Activities	\$ 2,896,260	\$ 200,649	\$ 74,817	(2,620,794)
General Revenues:				
Property taxes				3,027,081
Interest				17,985
Other				14,580
Total General Revenues				3,059,646
Change in Net Assets				438,852
Change in Assets Held by the Kalamazoo Community Foundation				26
Net Assets, beginning of year				4,703,475
Net Assets, end of year				\$ 5,142,353

See accompanying notes to financial statements.

Portage District Library

Governmental Fund Balance Sheet

<i>December 31, 2004</i>	<i>General Fund</i>
Assets:	
Cash (Note 4)	\$ 24,986
Investments (Note 4)	1,236,690
Receivables - Property taxes	2,310,637
Beneficial interest (Note 8)	281
Total Assets	\$ 3,572,594
 Liabilities and Fund Balance	
Liabilities:	
Accounts payable - Trade	\$ 36,611
Accrued wages payable	69,116
Total Liabilities	105,727
 Fund Balance:	
Reserved:	
Encumbrances	170,302
Endowment	261
Unreserved:	
Designated:	
Building reserve	40,000
General reserve	411,274
Building recarpeting reserve	225,000
Technology project	78,432
Undesignated	2,541,598
Total Fund Balance	3,466,867
Total Liabilities and Fund Balance	\$ 3,572,594

See accompanying notes to financial statements.

Portage District Library

Governmental Fund Reconciliation of Fund Balance of Governmental Fund to the Net Assets of Governmental Activities on Statement of Net Assets

December 31, 2004

Fund balance - Governmental Fund (from page 9)	\$ 3,466,867
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund. These assets consist of:

Capital assets, at cost	5,945,716
Accumulated depreciation	<u>2,376,011</u>

Net capital assets	3,569,705
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Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the fund. These assets consist of -

Property taxes receivable	169,725
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund. Balances are as follows:

Bonds payable	(1,939,725)
Compensated absences	<u>(124,219)</u>

Net Assets of Governmental Activities	\$ 5,142,353
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See accompanying notes to financial statements.

Portage District Library

Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance

<i>Year ended December 31, 2004</i>	<i>General Fund</i>
Revenues:	
Taxes	\$ 2,934,598
State aid	43,313
Other	264,718
Total Revenues	3,242,629
Expenditures:	
Current -	
Recreation and culture	2,517,472
Debt service:	
Principal payments	129,315
Interest and other	109,239
Capital outlay	69,558
Total Expenditures	2,825,584
Increase in Fund Balance	417,045
Change in Assets Held by the Kalamazoo Community Foundation	26
Fund Balance, beginning of year	3,049,796
Fund Balance, end of year	\$ 3,466,867

See accompanying notes to financial statements.

Portage District Library

Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to Statement of Activities

Year ended December 31, 2004

Net change in fund balance - Governmental Fund (from page 11)		\$ 417,071
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation expense:		
Capital outlay	9,790	
Depreciation expense	<u>(203,015)</u>	(193,225)
Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenues in the fund -		
Property taxes receivable		92,483
Repayment of expenses such as bond and note principal and compensated absences are an expenditure in the governmental fund, but not in the Statement of Activities.		
		<u>122,549</u>
Change in Net Assets of Governmental Activities		\$ 438,878

See accompanying notes to financial statements.

Portage District Library

General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

<i>Year ended December 31, 2004</i>	<i>Original Budget</i>	<i>Final Budget</i>	<i>Actual</i>	<i>Variance with Final Budget Positive (Negative)</i>
Revenues:				
Taxes	\$ 2,739,092	\$ 2,739,092	\$ 2,934,598	\$ 195,506
State Aid	36,000	36,000	43,313	7,313
Other	194,000	201,750	264,718	62,968
Total Revenues	2,969,092	2,976,842	3,242,629	265,787
Expenditures:				
Recreation and culture:				
Salaries and wages	1,082,700	1,082,700	1,053,965	28,735
Library materials	385,810	458,286	402,396	55,890
Fringe benefits	433,006	433,006	419,676	13,330
Capital outlay	75,800	115,285	69,558	45,727
Professional services	179,400	204,036	163,290	40,746
Building maintenance	140,300	140,300	137,046	3,254
Supplies	112,200	127,299	105,276	22,023
Utilities	110,500	110,500	81,458	29,042
Other charges	178,550	225,649	154,365	71,284
Total recreation and culture	2,698,266	2,897,061	2,587,030	310,031
Debt service:				
Principal payments	129,315	129,315	129,315	-
Interest and other	112,440	112,440	109,239	3,201
Total debt service	241,755	241,755	238,554	3,201
Total Expenditures	2,940,021	3,138,816	2,825,584	313,232
Increase in Fund Balance	29,071	(161,974)	417,045	579,019
Change in Assets Held by the Kalamazoo Community Foundation	-	-	26	26
Fund Balance, beginning of year	3,049,796	3,049,796	3,049,796	-
Fund Balance, end of year	\$ 3,078,867	\$ 2,887,822	\$ 3,466,867	\$ 579,045

See accompanying notes to financial statements.

Portage District Library

Notes to Financial Statements

1. Description of the Portage District Library

Effective March 22, 1998, the Portage District Library (the Library) was established pursuant to Act No. 24 of the Public Acts of 1989. Its purpose is to provide library services to the residents of the district. The Library may also enter into contracts to provide library services to municipalities outside the district. The Library is governed by a Library Board consisting of seven members who are elected by the citizens according to geographic regions.

2. Summary of Significant Accounting Policies

The financial statements of the Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Library's significant accounting policies are described below.

Reporting Entity

The Library is an independent entity with an elected board of directors. The board consists of seven members elected to four-year terms. The board has responsibility and control over all matters affecting the Library, including authority to determine its budget, the power to designate management and primary accountability for fiscal matters. The financial statements of the Library contain all activity for which the Library is financially accountable.

Basis of Presentation

Government-wide financial statements: The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Library. The government-wide financial statements categorize activities as either governmental or business-type. All of the Library's activities are classified as governmental.

The Statement of Activities demonstrates the degree to which the direct expenses related to a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to recipients who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported as general revenues.

Fund financial statements - The fund financial statements provide information about the Library's governmental fund.

Portage District Library

Notes to Financial Statements (Continued)

The governmental fund is used to account for the Library's general activity. The focus is on determination of the financial position and changes in financial position rather than on income determination. The following is a description of the governmental fund of the Library.

General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources.

Measurement Focus and Basis of Accounting

Government-wide Financial Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available if they are collected within the current period or soon enough after to pay liabilities for the current period. The Library considers revenues available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences, are recorded only when payment is due.

Budgets and Budgetary Accounting

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The General Fund is subject to legal budgetary accounting controls and is budgeted annually. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to May 31, department coordinators submit a prioritized expenditure budget report for the fiscal year commencing the following January 1.
- During June and July, the director and business manager develop an operating budget based upon the proposed expenditures and projected revenues for submission to the Library Board in July.
- Library Board work sessions are held in August.
- Public hearings are conducted by the Library Board during the September Library Board meeting and the final budget is adopted in September.

Portage District Library

Notes to Financial Statements (Continued)

- Formal budgetary integration is employed as a management control device during the year for the General Fund.
- The budget is adopted on a modified accrual basis consistent with accounting principles generally accepted in the United States of America.
- Budgeted amounts are as originally adopted or as amended by the Library Board during the calendar year. Individual amendments were not material in relation to the original appropriations and were made as permitted by law.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities.

Assets, Liabilities, and Net Assets

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less. Investments are stated at fair value.

Capital Assets - Capital assets, which include property, building, and equipment, are reported in the government-wide financial statements. Assets having a useful life in excess of one year and whose costs exceed \$3,000 are capitalized. Capital assets are stated at historical cost or estimated historical cost where actual cost information is not available. Donated fixed assets are recorded at their fair value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets useful lives are not capitalized. Major outlays for capital assets are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets are included as part of the capitalized value.

Depreciation is provided for on the straight-line basis over the estimated useful lives of the assets as follows:

Building and additions	10 - 40 Years
Equipment	5 - 10 Years
Furniture and fixtures	5 - 10 Years

Long-Term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as issuance costs during the current period. The face amount of debt is reported as other financing sources. Premiums and discounts are reported as other financing sources (uses) while issuance costs are reported as expenditures.

Portage District Library

Notes to Financial Statements (Continued)

Compensated Absences – Library employees are granted vacation and sick leave in varying amounts based on length of service. Sick leave is 50% vested for employees with 10 or more years of service. Effective January 1, 2001, employees were given the option to participate in a short-term disability plan; therefore, new employees are not eligible to accrue sick hours, only the employees which were vested have the option to continue to accrue sick hours. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws, or regulations from other governments.

Property Taxes - Property taxes are levied on December 1 at all local units at which time the taxes attach as an enforceable lien on the property. The taxes are due February 28 of each year. The Library's portion of the 2004 taxes are collected by the local units and remitted to the Library when it is received. The Library's portion of the 2004 property tax levy, which was based on the rate of 1.49 mills, applied to a total taxable value of real and personal property located in the Library district of \$1,938,521,860 is subject to change due to review and tax tribunal decisions.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the General Fund. All annual appropriations lapse at year-end.

The budget document presents information by function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Library to have its budget in place by January 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits the Library to amend their budget during the year.

Expenditures did not exceed budgeted appropriations.

Portage District Library

Notes to Financial Statements (Continued)

4. Cash and Investments

Cash

A summary of deposits at December 31, 2004, is as follows:

	<i>Carrying Amount</i>	<i>Bank Balance</i>
Insured (FDIC)	\$ 24,486	\$ 30,637

State statutes require that certificates of deposit, savings accounts, deposit accounts, and depository receipts are made with banks doing and having business in the state of Michigan, which are also members of a federal or national insurance corporation.

In addition to the deposits above, the Library also maintains cash on hand of \$500.

Investments

State statutes and various bond indentures authorize the Library to invest in obligations of the United States Treasury, agencies and instrumentalities, commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services, bankers' acceptances of U.S. banks, United States government or federal agency obligation repurchase agreements, and mutual funds composed of the types of investment vehicles previously named.

The Library's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Library or its agent in the Library's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Library's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Library's name.

	<i>Category</i>			<i>Carrying Amount</i>
	<i>1</i>	<i>2</i>	<i>3</i>	
Uncategorized Investments -				
Municipal investment fund	\$ -	\$ -	\$ -	\$ 1,236,690

At December 31, 2004, cash and investments are summarized as follows:

Municipal investment fund	\$ 1,236,690
Operating cash	24,486
Cash on hand	500
Total	\$ 1,261,676

Portage District Library

Notes to Financial Statements (Continued)

5. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	<i>Balance January 1, 2004</i>	<i>Additions</i>	<i>Disposals</i>	<i>Balance December 31, 2004</i>
Capital Lease Assets Not Depreciated -				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Capital Lease Assets Depreciated:				
Building	4,147,614	-	-	4,147,614
Building improvements	74,112	-	-	74,112
Land improvements	66,073	-	-	66,073
Total Capital Lease Assets at Historical Cost	4,317,799	-	-	4,317,799
Capital Assets Depreciated:				
Equipment	828,715	9,790	-	838,505
Building improvements	345,364	-	-	345,364
Furniture and fixtures	432,828	-	-	432,828
Land improvements	11,220	-	-	11,220
Total Capital Lease Assets and Capital Assets at Historical Cost	5,935,926	9,790	-	5,945,716
Less accumulated depreciation:				
Building	1,098,163	111,816	-	1,209,979
Land and building improvements	67,590	8,329	-	75,919
Equipment	651,289	60,153	-	711,442
Furniture and fixtures	355,954	22,717	-	378,671
Total accumulated depreciation	2,172,996	203,015	-	2,376,011
Net Capital Lease Assets and Capital Assets	\$ 3,762,930	\$ (193,225)	\$ -	\$ 3,569,705
Depreciation expense was charged to governmental functions as follows -				
Recreation and culture			\$ 203,015	

Portage District Library

Notes to Financial Statements (Continued)

6. Long-Term Obligations

Changes in long-term liabilities were as follows:

<i>Primary Government</i>	<i>Beginning Balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending Balance</i>	<i>Due Within One Year</i>
Governmental Activities:					
Bonds payable -					
General obligation debt	\$ 2,069,040	\$ -	\$ (129,315)	\$ 1,939,725	\$ 129,315
Other liabilities -					
Compensated absences	117,453	6,766	-	124,219	22,000
Total Long-Term Liabilities - Governmental Activities	\$ 2,186,493	\$ 6,766	\$ (129,315)	\$ 2,063,944	\$ 151,315

Long-term debt consists of building authority bonds used for renovation of the Library. The bonds were issued while the Library was still part of the City of Portage. Therefore, the bonds are in the City of Portage's name. The Library makes annual principal payments and semi-annual interest payments directly to the City of Portage for the Library's portion of the debt. There are no liens against the Library due to the bonds being in the City of Portage's name.

The bonds were originally issued for \$3,300,000, of which 86.21% is the Library's portion, or \$2,844,930. The bonds are dated June 1, 1995, with annual payments of \$86,210 to \$258,530 through July 1, 2015, and interest at 4.30% to 5.60%.

The annual requirements to pay principal and interest on long-term bonds outstanding for the Library are as follows:

<i>Year ending December 31,</i>	<i>Governmental Activities</i>		<i>Total</i>
	<i>Principal</i>	<i>Interest</i>	
2005	129,315	106,038	\$ 235,353
2006	129,315	99,508	228,823
2007	172,420	92,848	265,268
2008	172,420	83,710	256,130
2009	172,420	74,485	246,905
2010-2014	905,205	229,232	1,134,437
2015	258,630	14,483	273,113
	\$ 1,939,725	\$ 700,304	\$ 2,640,029

Portage District Library

Notes to Financial Statements (Concluded)

7. Retirement Plan

Plan Description

The Portage District Library contributes to a Money Purchase Plan and Trust for all full-time employees. Plan participants are not required to contribute, but may contribute if they choose to do so. Plan provision and contribution requirements are established and may be amended by the Library Board. The Library is required to contribute 10% of annual covered payroll. During the year ended December 31, 2004, the Library contributed approximately \$94,000 to the plan.

8. Beneficial Interest

The Statement of Financial Accounting Standards No. 136, *Transfers of Assets to a Not-for Profit Organization or Charitable Trust that Raises or Holds Contributions for Others* (SFAS 136), established standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both to another entity that is specified by the donor. SFAS 136 specifically requires if a not-for-profit organization establishes a fund at a community foundation with its own funds and is specified as the beneficiary of that fund, the organization must account for the transfer of such assets as a beneficial interest in funds held by the community foundation. The community foundation refers to such funds as agency fund endowments.

The Library previously transferred funds to the Kalamazoo Community Foundation to be held in endowment. The Kalamazoo Community Foundation maintains variance powers and legal ownership over a portion of the Library's endowment funds and as such, continues to report those funds as assets of the Kalamazoo Community Foundation. This balance was \$26,175 at December 31, 2004. In accordance with SFAS 136, the Portage District Library has recorded an asset for the beneficial interest in funds held by the Kalamazoo Community Foundation of \$281.

9. Risk Management and Benefits

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees and natural disasters. In order to minimize its exposure to these risks, the Library purchases commercial insurance coverage. Employee health insurance is also provided by private insurance carriers. There have been no settlements in excess of the Library's insurance coverage.



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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Library Board
Portage District Library
Portage, Michigan

We have audited the accompanying financial statements of the governmental activities of the Portage District Library (the Library), as of and for the year ended December 31, 2004, which collectively comprise the Library's basic financial statements and have issued our report thereon dated March 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Library's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and; accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board and management and is not intended to be and should not be used by anyone other than these specified parties.

BDO Seidman, LLP

Certified Public Accountants

March 25, 2005